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March 23, 2005

VIA HAND DELIVERY

Mr. Charles Terreni
Chief Clerk of the Commission
SC Public Service Commission
P. O. Drawer 11649
Columbia, SC 29211

RECEIVED
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SC PUBLIC SERVICE
COMMISSION

RE: Application of Midlands Utility, Inc., for approval of
New Schedule of Rates and Charges for Sewage Service provided
to Residential and Commercial Customers in all areas served.
Docket No.: 2004-297-S


Dear Mr. Terreni:

Enclosed please find the original and one copy (1) of the **Proposed Order Granting Increase in Rates & Charges** filed on behalf of Midlands Utility, Inc. in the above referenced docket. By copy of this letter, I am serving all parties of record.

If you have questions, please do not hesitate to contact me.

Very truly yours,

ELLIOTT & ELLIOTT, PA


Charles H. Cook

CHC/jcl

Enclosures

c: All parties of record (w/enc.)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-297-S

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PUBLIC SERVICE
COMMISSION

IN RE: Application of Midlands Utility, Inc. for Approval) **PROPOSED**
of New Schedule of Rates and Charges for Sewage) **ORDER**
Service Provided to Residential, Commercial and) **GRANTING**
Wholesale Customers in all areas Served.) **INCREASE IN**
) **RATES & CHARGES**

I. INTRODUCTION

This matter is before the Public Service Commission of South Carolina (the "Commission") on the Application of Midlands Utility, Inc. ("Midlands" or the "Company"), filed on October 6, 2004, seeking approval of a new schedule of rates and charges for sewer service that Midlands provides to its customers within its authorized service area in Richland, Lexington, Fairfield and Orangeburg Counties, South Carolina. The Application was filed pursuant to S.C. Code Ann. Section 58-5-210 *et seq.*, and 26 S.C. Regs. 103-521.

Midlands in its letter dated May 6, 2003, to the Commission's Executive Director gave its intent to seek an increase in rates. By correspondence the Commission instructed Midlands to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the areas affected by Midlands' Application. The Notice of Filing indicated the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings. Midlands furnished the Commission with an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and with a

letter in which Midlands certified that it had complied with the instruction of the Executive Director to mail a copy of the Notice of Filing to all customers affected by the Application.

On February 24, 2005, a public hearing concerning the matters asserted in Midlands' Application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, South Carolina. During the proceedings, Midlands was represented by Scott Elliott, Esquire and Charles H. Cook, Esquire. The Office of Regulatory Staff was represented by Florence P. Belser, Esquire and Wendy B. Cartledge, Esquire. There were no intervenors or public witnesses.

At the hearing, Midlands presented the testimony of Keith G. Parnell, President and Operations Manager of Midlands. Also presented as a rebuttal witness was Charles K. Parnell part owner of the Company and a certified engineer. The ORS Staff presented the testimony of Dawn M. Hipp, Willie J. Morgan and Roy Barnett, Auditors for the Office of Regulatory Staff.

II. BACKGROUND

Midlands is a privately owned company operating in Lexington, Richland, Fairfield and Orangeburg Counties. At the time of its Application, Midlands provided collection and sewer service to 2,937 active residential and commercial customers. Its present rate schedule was approved by the Commission in Order Number 97-517, (Docket Number 96-160-5, dated June 17, 1997. By Commission Order Number 2002-138 in Docket No. 2001-380-S dated March 1, 2002, Midlands was granted an approved schedule of rates which included a collection only residential sewer charge.

Midlands is private utility jointly owned by brothers, Keith Parnell (President) and Ken Parnell (Vice President). Also, the Parnells own two other sister companies, Bush River Utilities, Inc. ("BRUI") and Development Service, Inc. ("DSI") both of which have applied for rate increases, having been heard by the Commission January 20, 2005 and January 5, 2005, respectively.

In considering the Application of Midlands, the Commission must consider competing interests. The interests of the consumers to receive quality service and a quality product at a reasonable rate compete with the interests of the provider to have the opportunity to earn a fair rate of return. Regulation, as it has developed in the United States, is concerned with rates, service, [and] safety Charles F. Phillips, Jr., *The Regulation of Public Utilities*, (1993) at 171. Rate regulation has two aspects: control of the rate level (earnings) and control of the rate structure (prices). *Id.* As to the rate level, public utilities are entitled to cover all allowable operating costs and to have the opportunity to earn a "fair" rate of return. *Id.* Collectively, these items comprise a company's total revenue requirements. *Id.* As to the rate structure, public utilities are permitted to establish rates that, at a minimum, will cover their revenue requirements. *Id.* at 171-72. Such rates must be "just and reasonable," with no "undue" discrimination. *Id.* at 172.

Thus, in considering the Application of Midlands, the Commission must give due consideration to Midlands' total revenue requirements, comprised of allowable operating costs and the opportunity to earn a fair return. To this end, the Commission will review the operating revenues and operating expenses of Midlands and will endeavor to establish adequate and reasonable levels of revenues and expenses. Further, the Commission will consider a fair return for Midlands based upon the record before it. Should the

Commission's determination show that rates should be increased, the Commission will then authorize rates that will meet the revenue requirements of Midlands but that are also just and reasonable and free of undue discrimination.

III. FINDINGS OF FACT

1. Midlands is a sewer utility providing sewer service and collection in its assigned service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. § 58-5-10, *et seq.* (1976), as amended.

2. The appropriate test year period for the purposes of this proceeding is the twelve-month period ending June 30, 2004.

3. The Commission will use operating margin as a guide in determining the lawfulness of the Company's rates and in the fixing of just and reasonable rates.

4. By its Application, Midlands is seeking a two stage increase in its rates and charges for sewer service which results in additional revenues of \$316,238.00 after the first stage of the rate increase and additional revenues of \$35,150.00 after the second stage.

5. The appropriate operating revenues for Midlands for the test year, based upon rates in effect pursuant to Order #97-517, are \$956,194.

6. The appropriate operating expenses for Midlands for the test year are \$718,319.

7. The operating margin for the test year is .0017%.

8. Based on the operating margin for the test year we find that Midlands has demonstrated the need for an increase in rates.

9. When applied to test year operations, the rates requested and proposed by Midlands result in an operating margin of 6.71% during the first stage increase and 7.96% for the second stage increase.

10. The Commission finds that an operating margin of 6.71% after the first stage increase and an operating margin of 7.96% after the second stage increase are fair and reasonable for a utility the size of Midlands. The Commission further finds that in order to lessen the impact of a one-time rate increase that it is appropriate to phase-in the rate increase.

11. The Commission finds that the rate increase should be phased-in in two stages, the first stage increase to be effective immediately and the second stage increase to be effective upon a showing to this Commission that the construction of the Midlands' wastewater treatment replacement plants have been completed to the satisfaction of South Carolina Department of Health and Environment Control (DHEC) at a cost of \$1,407,000.

12. To achieve an ultimate operating margin of 7.96% following a two stage phase-in of rates, the Commission approves the increase of rates and operating margins as reflected in Exhibit 2, of the application of Midlands.

13. In order for Midlands to have the opportunity to earn the herein approved operating margins under the phase-in of the rates, Midlands must be allowed the necessary additional revenues under the first part of the phase-in and additional revenues under the second part of the phase-in, all as reflected by the application and exhibits of Midlands.

14. The appropriate operating margin for Midlands based upon the herein approved adjustments and rates is 6.71% for the first part of the phase-in and 7.96% for the second part of the phase-in.

15. The Commission finds that Midlands does have an actual contract with DSI for the lease of one backhoe and generator which is fair and reasonable and the payable should be allowed from Midlands to DSI in the amount of \$27,120.

16. The plant modification fee increased to \$2,000 is fair and reasonable as well as the tap fee increase of \$250 to \$500.

17. The Commission finds that Midlands should begin maintaining its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted herein by this Commission.

IV. EVIDENCE TO JUSTIFY FINDINGS OF FACT

In this section, the Commission sets forth the evidence relied upon in making its Findings of Fact as set forth in Section II of this Order.

1. EVIDENCE FOR FINDING OF FACT NO. 1

This finding is uncontested by the Parties.

2. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 2

The evidence supporting this finding, that the appropriate test year period for the purposes of this proceeding is the fiscal twelve-month period ending June 30, 2004, is contained in the Application filed by Midlands and in the testimony and exhibits of the parties' witnesses.

A fundamental principle of the ratemaking process is the establishment of a test year period. In *Heater of Seabrook v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826 (1996), the Supreme Court of South Carolina noted that "[t]he

'test year' concept is very important in the rate-setting process. In order to determine what a utility's expenses and revenues are for purposes of determining the reasonableness of a rate, one must select a 'test year' for the measurement of the expenses and revenues." 478 S.E.2d 828 n.1 (1996). The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, reserves, and expenses in the near future when the prescribed rates are in effect. *Porter v. South Carolina Public Service Commission*, 328 S.C. 222, 493 S.E.2d 92 (1997), citing *Hamm v. S.C. Pub. Serv. Comm'n*, 309 S.C. 282, 422 S.E.2d 110 (1992). The test year provides a basis upon which a commission staff will conduct its audit of a company's books. Phillips, *The Regulation of Public Utilities* at 196. For rate-making purposes, only just and reasonable expenses are allowed; only used and useful property (with certain exceptions) is permitted in the rate base. *Id.* The commission must have a basis for estimating future revenue requirements. *Id.*

The Commission concludes that the appropriate test year to use in the instant proceeding is the twelve-month period ending December 31, 2003. No party contested the use of that test year as proposed by Midlands in its Application. To the contrary, all witnesses relied upon that test year period in presenting their evidence.

3. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 3

In its Application, Midlands did not specify or propose a particular rate setting methodology. However, in its Application, Midlands did identify existing net depreciable property consisting of utility plant and equipment of \$137,922. Application, Exhibit 5.

"The Public Service Commission has wide latitude to determine an appropriate rate-setting methodology." *Heater of Seabrook v. Public Serv. Comm'n of South Carolina*, 324 S.C. 56, 64, 478 S.E. 2d 826, 830 (1996). South Carolina law does not

require the Commission to use any particular price-setting methodology. *Id.* S. C. Code Ann. Section 58-5-240 (H) (Supp. 2003) directs the Commission to specify an allowable operating margin in all water and wastewater orders. However, “that directive does not mean that the operating margin methodology must be used in determining a fair rate of return.” *Id.* Operating margin “is less appropriate for utilities that have large rate bases and need to earn a rate of return sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.” *Id.* According to the Application, Midlands’ per books total rate base, or net depreciable property, is \$137,922. Application, Exhibit 5.

Accordingly, Midlands has not presented evidence of a rate base of sufficient size on which to utilize return on rate base as a price setting methodology, the Commission finds that operating margin is the appropriate rate-setting methodology to use in this case.

4. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

We find Keith G. Parnell and C. Ken Parnell to be credible witnesses. Midlands, by consent orders with DHEC, must close its Windy Hill, Raintree Acres and Bellemeade lagoons and construct a new wastewater treatment replacement plants at a minimum cost of \$1,407,000. DHEC in keeping with Midlands’ consent orders must approve construction of Midlands’ treatment plant upgrades. DSI, Bush River, and Midlands Utility, Inc. all owned by Keith G. Parnell and C. Ken Parnell have applied for and obtained financing sufficient to pay for Midlands’ upgrade.

The Application of Midlands indicates that it is seeking additional revenues for the first stage of the proposed rates for its sewer operations and additional revenue for the second stage increase to pay the obvious increase in operating costs as a result of the construction of the its upgrade, additional operating costs and debt service.

5. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

Midlands' Application shows per book test year total operating revenues of \$956,194. Application, Exhibit 2. We find the Applicant's calculations to be credible and based upon substantial records and data submissions.

6. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 6

The Application reflects operation expenses of \$718,319 for the test year. Applicant worked closely with the ORS, to include lengthy on site inspection and voluminous thorough discovery. This Commission finds that Midlands has justified the construction expenses, was reasonable and prudent in its operations and that its operation expenses in the test year are known and measurable.

The Commission is guided in its decision by the case of *Heater of Seabrook, Inc. v. Public Service Commission of South Carolina*, 324 S.C. 56, 478 S.E.2d 826 (1996), in which the Supreme Court of South Carolina stated "[w]hen calculating expenses in rate cases, Commission should use only test year data and known and measurable changes occurring after the test year."

However certain accounting issues remain.

First with respect to rate case expenses, the Commission approves Midlands' rate case expenses submitted which include \$39,589.60 in legal fees and costs submitted and further approves the amortization period of three years proposed by Midlands. The Commission finds that rate case expenses are a proper item for inclusion in rates. Ideally, the amortization period for the recovery of the rate case expenses should allow for recovery of those expenses between rate cases. However, it is impossible to foresee what the future holds and to state with any certainty when the Company may need to return to this Commission for rate adjustment.

In *Hamm v. South Carolina Public Service Commission*, 309 S.C. 282, 422 S.E.2d

110 (1992), the Supreme Court of South Carolina stated

Adjustments for known and measurable changes in expenses may be necessary in order that the resulting rates reflect the actual rate base, net operating income, and cost of capital. The adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.

(citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)).

While the Commission cannot state with absolute precision when the Company will return for another rate proceeding, the Commission must provide a sufficient amortization period under which Midlands may recover its expenses. The Commission finds a three year amortization period reasonable.

Second, Midlands proposes to depreciate plant over 20 years and equipment of 7 years. ORS Staff did not accept Midlands' proposed adjustment to depreciation expense.

The Commission finds that Midlands properly reflected the proposed depreciation expense for both stages of expenses on current property. In particular, the severe duty expected of the plant and equipment, the continuously evolving nature of regulation and the resulting obsolescence narrows the useful life of plant and equipment. Midlands has made an adequate showing through the testimony and exhibits of Keith Parnell and Ken Parnell in this docket that its schedule of depreciation of 20 years for plant and 7 years for equipment is appropriate. This Commission will exercise its authority to accept the depreciation schedules proposed by Midlands in this action. ORS presented testimony about a Florida Public Service Commission model; however, the testimony failed to take into account the multiple depreciation allowances under NARUC, particularly as industry

standard for a sequential batch reactor and no where did the late filed exhibit of ORS even address a sequential batch reactor.

7. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 7

The operating margin for the test year under present rates and test year expenses is .0017%.

8. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 8

Based upon finding of Fact 7, the Commission finds that Midlands has demonstrated a need for rate relief in the form of rate increase. Midlands has persuaded the Commission that it is indeed entitled to a two stage rate increase, and ORS has substantially represented its analysis that Midlands needs the rate increase.

By consent orders with DHEC, Midlands has agreed to close its three wastewater lagoons and build modern replacement wastewater treatment facilities. Midlands is acting under the compulsion of the DHEC orders enforceable by criminal and civil penalties. Moreover, Keith and Ken Parnell, owners of Midlands have gone to great lengths to comply with the DHEC consent order. First, Midlands has designed wastewater treatment plant upgrades with engineering data provided to DHEC to comply with Consent Orders. The minimum cost of the system is \$1,407,000, the individual replacement plants will cost as follows: Windy Hill \$491,000; Raintree Acres \$491,000; Bellemeade \$425,000. Midlands has applied for and obtained financing sufficient to pay for the construction of the wastewater upgrade. Not only has Midlands pledged its assets to pay for the loan but also Keith and Ken Parnell have similarly committed their personal assets. The Commission determines that the best evidence for the upgrade has been conclusive by the proposal to build the upgrade, the financing obtained to construct the upgrade, the necessity of compliance with the consent order, and the good faith

efforts of both Keith and Ken Parnell are all known and measurable. The two stage rate increase, once granted, may require Midlands to satisfy this Commission that the upgrades were built in accordance with the plans submitted to this Commission and at the cost submitted to this Commission prior to the implementation of the second rate increase. Set out hereafter, both conditions will be made a part of this order.

9. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 9

When applied to test year operations, the rates requested and proposed by Midlands result in an operating margin of 6.71% during the first stage increase and 7.96% for the second stage increase requested.

10. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 10

The Commission finds that the approved operating margins are certainly reasonable for a utility the size of Midlands. Accordingly, in order to lessen the impact to the customers of a one time rate increase, the Commission further finds that it is appropriate to phase-in the rate increase. The Commission recognizes that Midlands faces increased costs in continuing to serve its customers. Midlands requires substantial increased revenues just to meet day-to-day operations, without considering the costs associated with the expected increase in operating costs and the necessary capital improvements required on the system.

The Commission acts out of concern for the customers. The Commission recognizes that the customers are being requested to pay a sizeable rate for sewer service. However, implementing the rate increase in two stages prevents the need for a second rate case with its considerable attendant costs and relieves the financial strain on its customers. Without an influx of revenues, the viability of Midlands could certainly be in

question. The Commission must allow for the utility to be viable in order to provide the services to the public.

Midlands has demonstrated a need for the rate increase without considering the fact that Midlands is facing increased operating costs in order to meet DHEC's requirements. As evidenced by the testimony of Midlands' president, Mr. Parnell, Midlands has obtained a loan in order to finance the capital projects needed to meet DHEC's requirements. Thus, the Commission must consider that Midlands will need to show financial viability and an ability to repay debt in order to obtain necessary financing for the capital projects. However, while keeping in mind the financial status and viability of Midlands, the Commission does not ignore the impact of rate increases on the public. As a policy matter, the Commission concludes that it must devise a rate plan which will provide needed revenues to Midlands but also lessen the impact of the increase on the customers. To balance these competing interests, the Commission determines that a phase-in of the rate increase is appropriate.

A phase-in of rates is not a new concept in South Carolina. A phase-in of rates was involved in the case of *Hamm v. South Carolina Public Service Commission*, 294 S.C. 320, 364 S.E. 2d 455 (1988), when South Carolina Electric & Gas Company brought the V.C. Summer Nuclear Station into rate base. While Midlands' rates are being set using operating margin methodology rather than rate of return methodology, the large one-time rate increase would be the same for the customers regardless of the methodology used to set the rates. Therefore, the Commission finds that the public interest requires a phase-in of this rate increase in order to lessen the impact of the rate increase on the customers.

11. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT 11

According to the record, Midlands has no present alternative but to construct new wastewater treatment plants. Midlands will certainly benefit from the improvement to its system. However, Midlands as a result will incur additional operating costs as it must increase its rates to pay for an expensive upgrades. As for the amounts of the phase-in of the rates, we approve the increase requested by Midlands.

The first stage increase will be implemented immediately upon issuance of this order. The second stage rate increase must not be implemented until Midlands files with this Commission a report detailing the construction of the upgrades and proof of compliance with all DHEC requirements concerning the upgrade. This report must be filed with the Commission and served on ORS. The report required before implementing the second stage of the rate increase shall detail to the Commission: (1) the completion of the upgrades; (2) the costs expended on the upgrades; and (3) compliance with all DHEC requirements pertaining to the upgrade.

12. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The Commission must design rates which will allow Midlands to improve its financial position by moving from an operating margin of .0017% to an ultimate operating margin of 7.96% following a two part phase-in of rates. To achieve an ultimate operating margin of 7.96% following the second stage of rate increases, the Commission accepts and adopts the rates proposed by Midlands.

13. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 13

Using the Operating Revenues and Operating Expenses approved herein, the Commission is able to calculate the income requirement for the utility associated with the herein approved phase-in of rates. Operating Margin is achieved by dividing net operating income for return minus interest expense by total operating revenues. Thus the

revenue requirement for Midlands under operating margin methodology found appropriate in this Order and using the operating revenues and operating expenses approved herein is calculated as \$1,272,432 for the opportunity to achieve the 6.71% operating margin found reasonable for the first stage of new rates; and \$1,307,582 for the opportunity to achieve the 7.96% operating margin found reasonable for the second stage of the rate increase.

In order for Midlands to achieve the requisite income requirement to have the opportunity to earn the herein approved operating margins under the phase-in of the rates, Midlands must be allowed additional revenues of \$316,238 under the first part of the phase-in; additional revenues of \$35,150 under the second part of the phase-in.

14. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 14

S.C. Code Ann. Section 5-240(H) (Supp. 2003) provides, in part, that “[t]he [C]ommission shall specify an allowable operating margin in all water and wastewater orders.” Based upon the operating margins approved herein for the phase-in of rates and the revenues and expenses also approved herein, the corresponding operating margins for the phase-in of rates is calculated to be 6.71% for the first stage of the rate increase, and 7.96% for the second stage of the rate increase.

15. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO.15

The Commission finds that Midlands has now entered into an actual contract with DSI for the lease of one backhoe and generator. While in the DSI case the Commission disallowed the income due from Midlands, we now find that the sum is legally due and owing over to DSI under contract as a combined fair and reasonable rental of \$27,120. Midlands has made a creditable case to support the payable to DSI and the Commission

approves herein by this order the inclusion of the amount as a proper expense according to testimony, exhibits and Exhibit 2, of the Application.

16. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 16

Midlands seeks an increase in its tap fee from \$250 to \$500 and an increase to \$2,000 for a plant modification fee. It is clear from the record herein, including the application, testimony and responses to discovery entered into the evidence of this case, that the increase is justified to recapture plant investment based on the proposed Midlands facility upgrade. The Commission's regulation permits applicant to recapture plant investment in by its tap fee and plant modification fee. Accordingly, the applicant has demonstrated proper cost justification for the proposed tap fee increase and plant modification fee.

17. EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO.17

The Commission finds that Midlands should begin maintaining its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, and as adopted by this Commission herein. We find that Midlands should maintain its books and records using the NARUC Uniform System of Accounts as required by 26 S.C. Regs. 103-517 (Supp. 2003). Further, we advise Midlands to consult with the Staff if guidance is needed concerning the requirements of the NARUC Uniform System of Accounts.

V. CONCLUSIONS OF LAW

Based upon the Findings of Fact as contained herein and the record of the instant proceeding, the Commission makes the following Conclusions of Law:

1. Operating margin is the appropriate guide for the Commission to use in determining the lawfulness of the rates of Midlands and in fixing of just and reasonable rates for Midlands to charge its customers in South Carolina.

2. A fair operating margin for the sewer operations of Midlands in South Carolina is 6.71% following the first stage of the rate increase; and 7.96% following the second stage of the rate increase.

3. For the test year ending June 30, 2004, the appropriate operating revenues, under present rates, are \$956,194, and the appropriate operating expenses, under present rates and as adjusted in this Order, are \$718,319.

4. Using the operating margins found to be fair and reasonable in this Order, the revenue requirements for Midlands are \$1,272,432 after the first stage of the rate increase; and \$1,307,582 after the second stage of the rate increase.

5. In order for Midlands to have an opportunity to earn the operating margins found reasonable and approved in this Order and to meet the revenue requirements, Midlands must be allowed additional revenues of \$316,238 under the first stage of the rate increase; and additional revenues of \$35,150 under the second stage of the rate increase.

6. The rates approved in this Order are designed to be just and reasonable without undue discrimination and are also designed to meet the revenue requirements of the Company.

7. Based on the increase in rates approved herein, the appropriate operating margins for Midlands on its South Carolina operations are 6.71% for the first phase, and 7.96% for the second phase.

8. Midlands shall maintain its books and records in accordance with the NARUC Uniform System of Accounts for Class C Sewer Utilities, as adopted by this Commission herein and as required by 26 S.C. Code Regs. 103-517 (Supp. 2003).

9. Midlands' is entitled to the accounting treatment set forth herein to include rate expenses, depreciation expenses and further Midlands is entitled to the equipment payable due DSI for the backhoe and generator under its legal obligation.

IT IS THEREFORE ORDERED THAT:

1. Midlands is granted an increase in rates and charges as provided herein for its sewer operations in South Carolina.

2. The schedule of rates and charges attached hereto as Appendix A, including the tap fee requested, are hereby approved for service rendered on or after the date of this Order. Further, the schedules are deemed to be filed with the Commission pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2003).

3. Midlands shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class C Water and Sewer Utilities, as adopted herein by this Commission.

4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

_____/s/_____
Chairman

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that he has served below listed parties with a copy of the Proposed Order Granting Increase in Rates and Charges on behalf of Midlands Utility, Inc., indicated below by hand delivery on the date indicated below:

RE: Application of Midlands Utility, Inc., for approval of a New Schedule of Rates and Charges for Sewage Service provided to Residential and Commercial Customers in all areas served.

Docket No.: 2004-297-S

PARTIES SERVED: Florence P. Belser, Esquire
General Counsel
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Columbia, SC 29201

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Charles H. Cook

March 23, 2005